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F. Patrick Dillon

Arizona American Water

W-01303A-10-0448

In Opposition

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2011 JUL 26 A 11:30

July 18, 2011

Mr. Gary Pierce – Chairman
Arizona Corporate Commission
Commissioner's Wing
1200 W. Washington
Phoenix, AZ 85007-2996

ARIZONA CORPORATE COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

JUL 26 2011

To: Arizona Corporate Commission
Gary Pierce – Chairman
Paul Newman – Commissioner
Sandra D. Kennedy – Commissioner
Bob Stump – Commissioner
Brenda Burns – Commissioner

DOCKETED BY

Re: Protest of Arizona-American Water Requested Water Rate Increase
Docket No. W-01303A-10-0448

I am writing as a resident of the Agua Fria Water District to protest, in the strongest possible terms, the above noted requested rate increase by Arizona-American Water (AAW) as it is totally wrong in the format it has been requested. I do realize utility companies are permitted to recapture money spent on infrastructure and also are permitted to make a small profit. Unfortunately, this proposed mockery is nothing less than highway thievery. I will attempt explain why I feel this way. Please excuse the lengthy letter, but compared to the never ending, boring legal documents you have to read for every rate case, my letter will be a piece of cake.

Background

This case started in the late 90's when a group of west valley entities (WESTCAPS) got together to study the best way to make use of Central Arizona Project (CAP) water allocations and comply with the 100 year water requirements for the many thousands of homes projected to be built by Developers over the coming decades. After many in between steps, AAW agreed to build the White Tanks Regional Water Treatment Facility (WTRWTF) with a capacity of producing 80 mgd (million gallons per day) of potable water. The cost to build the plant was roughly \$74 million. The intent was to recover costs from one-time hook-up water fees from developers and new homebuyers in the West Valley.

AAW started construction in the mid 2000's and finished late 2009 or early 2010 when the plant went on line with a processing ability, I believe, for roughly 13.4 mgd of its projected 80 mgd capacity. At full capacity the Agua Fria District was to be allocated only 11% of the 80mgd capacity. Unfortunately, the markets crashed and all expected development stopped. Rather than making a decision to either cancel the construction or scale back when they could see the housing market had crashed, AAW made the decision to go ahead with the construction of the plant.

Key Points

- As new homes are no longer available in the West Valley, AAW filed for a rate increase of roughly 84% from the Agua Fria Water District customers as part of their normal water bills to recover their plant costs. This means they have shifted the recovery of their plant costs from new West Valley customers in newly constructed homes with a fee paid one time to cover their water fees to different, existing customers who were already receiving water. The existing customers, at maximum use of the water from the new plant, would only use 11% of the plant capacity. Yet, they are being asked to pay 100% of the plant cost. To make matters worse AAW is requesting the 84% rate increase to be added to the monthly water rates. This means the 84% will be paid in perpetuity. Under this schedule, AAW will be repaid over and over again for the plant cost. This is completely unacceptable. There should be a stop measure in the rate case which removes the approved increase when the plant cost has been fully paid. The Arizona Utility Consumer Office (RUCO) shows the company anticipated receiving \$63 million in hook-up fees. To date, it has taken in \$2.9 million.
- RUCO is recommending a 35% increase added to our standard water rates. Yes, this is less than 84%, but it has two problems. First, Agua Fria is only scheduled for 11% use of the water processed by the new plant, but this has us paying 35% indefinitely, month after month. This means we will still continue to pay for the cost of the plant many times over – it will just take longer to pay off the plant cost at the 35% rate.
- The Developer for our community in Surprise charged each new home buyer a one-time water fee as part of our lot costs when we bought our homes. We were told we had a 100 year supply of water provided by wells from the water aquifer under our homes. This meant we would not have to worry about water as it was being provided by our wells.
- This is a double whammy for our HOA residents as we already paid a one-time fee to our Developer for our water. Now, AAW wants us to pay for water designated for thousands of homes never built and they want us to pay the bill forever!!
- AAW, without telling us, shifted most of the residents off well water starting in 2010 so they could start processing some of our water through the new WTRWTF. This way, they could report to the ACC they were already processing Agua Fria water through their CAP plant.
- The CAP water provided to Surprise residents had major negative effects for many home owners. Those with well water mostly received soft water in their homes. When they were unknowingly transferred to CAP water, most residents started receiving very hard water, which required those residents to spend money purchasing water softeners and then spend more money to purchase salt for their new water softeners. This is a new expense they did not expect or deserve as they had paid hook-up fees to the Developer who told them they had a 100 year supply of water from aquifer water wells.
- AAW made a major business mistake by continuing to build the plant when their prospective customers had disappeared. Current customers should not be forced to pay for the mistakes of their water company.
- AAW spokeswoman Joni McGlothlin says the plant was designed to wean Surprise customers off groundwater, which is not easily replenished, to renewal CAP water. What Joni McGlothlin did NOT say is the maximum plant capacity was designed to provide 11% of the water when operating at full capacity for Agua Fria customers using CAP water. These were the Agua Fria customers who did not have access to aquifer well water. I do not believe it was intended to process water for customers who were getting their water from wells with a 100 year supply of water. Neither did McGlothlin mention the remaining 89% of the plant capacity was designed for customers which have not materialized. But, AAW now expects all Agua Fria customers to pay the plant costs over and over again at an rate increased by 84% for the missing new customers. Any rate increase added to the water bill to pay for the new plant

should include a stop payment point, as noted above, when the cost has been fully paid. At this point the monthly bills should be reduced by the same amount it was increased. And, it should only apply to those customers who were previously using CAP water. It should not apply to those who paid a hook-up fee to use well water. If the Commission approves this proposed increase, it means customers who already paid a water hook-up for use of water wells would be hit with a second hook-up fee to use CAP water of a lesser quality.


- Joni McGlothlin further states AAW met all the notification requirements. In fact, the company did many things to tell customers about the proposed 84% rate increase. Perhaps these were flyers in the monthly bills saying Agua Fria customers were subject to the rate increase. Yes, flyers may have been included in the monthly bills saying Agua Fria customers were subject to the rate increase. Unfortunately, nowhere on the water bill does it state the customer is in the Agua Fria Water District. In fact, all the bill says about identification is the customers mailing address and AAW's return address in Pasadena, California. What they did not do was clearly state on the monthly bill the customers were in the Agua Fria district and were subject to the 84% increase. As a side note, my guess is very few customers ever read the enclosed flyers with their monthly bills. I personally carefully read each monthly bill, but I only scan the enclosed flyers. I had no idea my bill was subject to this crazy requested rate increase. It was thanks to a fellow resident in our community who studied the proposal and brought this to our attention that we became aware of the problem.
- The fact most customers were not aware they were in the Agua Fria District became obvious when we got the response from the City of Surprise and HOA's who were contacted regarding the proposed increase. Their response was an adamant denial the rate increase effected them. It wasn't until they were shown a map of the Agua Fria Water District indicating the location of their city or location of their HOA's in the Agua Fria Water District plus a copy of the official water rate increase request with the Docket number that they realized they were effected by the rate increase. This realization came too late for these organizations to file as official interveners.
- Another group of customers not properly notified were those who receive and pay their bills electronically. It is my understanding most, if not all, of these customers were totally unaware they were in the Agua Fria District and were also subject to the increase. Those of us who live in HOA's will get a double whammy hit on the rate increase. The first will be an increase in HOA annual fees to pay the cost of increased common area water use in the HOA plus an increase in their personal water use. For example, in my HOA our common area water cost for 2010 was roughly \$545,000. An 84% increase will result in a new annual water bill slightly over \$1 million. This will require an annual increase of roughly \$60 in annual dues just to cover the increased water bill. Add to this my personal water bill, which averages \$700 yearly, will jump to \$1,288. This is a monthly increase of \$50.

Bottom Line

- The proposed rate increase is flat out wrong.
- The wrong people are being charged.
- The rate increase is requested in perpetuity as part of our monthly bill with no end in sight.
- Why should customers be forced to pay for an expensive mistake made by AAW?
- At the very most, Agua Fria water users should only pay a portion of the 11% of the bill and that does not involve all the customers as all have not been shifted to CAP water.
- Why should residents who already had use of ground water through their one-time fee paid to the Developer have to pay AAW a new fee?. We should NOT have to pay a second fee to get water. If this proposal is approved, will the ACC order AAW to refund each resident their initial water hook-up fee since they are now asking us to pay a second water hook-up fee?

- If any portion of the Agua Fria rate is approved by the ACC, we request you excluded Agua Fria customers from the newly submitted general 3+% (?) rate increase requested for the summer of 2012. This would result in two water rate increases for Agua Fria customers in less than one year.
- PLEASE STOP THIS CRAZY PROPOSAL. SEND AAW BACK TO THE DRAWING BOARD

Respectfully yours, ↗



F. Patrick Dillon

PS. I first attempted to send this letter via email to the E-mail addresses listed on the contact web page for the ACC. The first attempt was addressed to all five commissioners at the same time. The ACC server rejected my email. I then attempted to send the letter individually to each commissioner by email. It to was rejected. I have a simple question. Why list your email addresses on the ACC contact page if your server rejects all emails sent to the commissioners?